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1918 · 2018

forward together · saam vorentoe · masiye phambili

Thoughts on South Africa's logistics challenges due to the COVID-19 lockdown

Webinar: 14 April 2020

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South Africa's lockdown created many challenges



- Classification of what is allowed
 - Supposed to be essential and non-essentials
 - Government changes its mind around this
 - Certain exceptions are allowed
 - However value chains are not set up in this way
 - Leading to stoppages and bullwhip effects
- Inland freight flow system suffers from administrative overreach
 - It mirrors issues in other areas of civil life
 - Regulatory permits expire - uncertainty about extension
 - Roadblocks lead to massive time delays
 - Communication at roadblocks can be challenging

South Africa's lockdown created many challenges



- Inland border posts
 - Is already a highly compromised system
 - Now exacerbated by recent events
 - Time delays and administrative problems are significant
- The port system
 - The “non-essentials” clogged up the port
 - Decision to clear essentials and non-essentials from the port
 - However this increases multiple freight handling
 - And will require additional storage
- Equipment
 - In the wrong place
 - Maintenance issues

Key data



- About half of purely domestic freight is considered essential
- For total freight:
 - About one third of freight moved by truck in South Africa is considered to be essential
 - For the railway that is less than 10%
- For international trade:
 - A portion of the railway's bulk export business is allowed to continue
 - 90% of trade uses sea ports
 - Not considering bulk export lines, about one quarter of sea port freight is considered essential
- Likely effect is a SA GDP growth rate of -4% to -6%
 - Widest forecast range is -2% to -20%
- Revenue loss for LSP's of between 7% and 25%

Additional logistics costs in spite of spare capacity



- Spare capacity is “dead” capital
- At the same time some capacity is used inefficiently
- Administrative processes are expensive
- Logistics costs as a percentage of transportable GDP in South Africa is nearly 60%.
 - This crisis will push it to nearly 70%
- This is typical of emergency/humanitarian logistics
 - The positioning of high volume supplies is a bigger problem than the acquisition

Solutions?



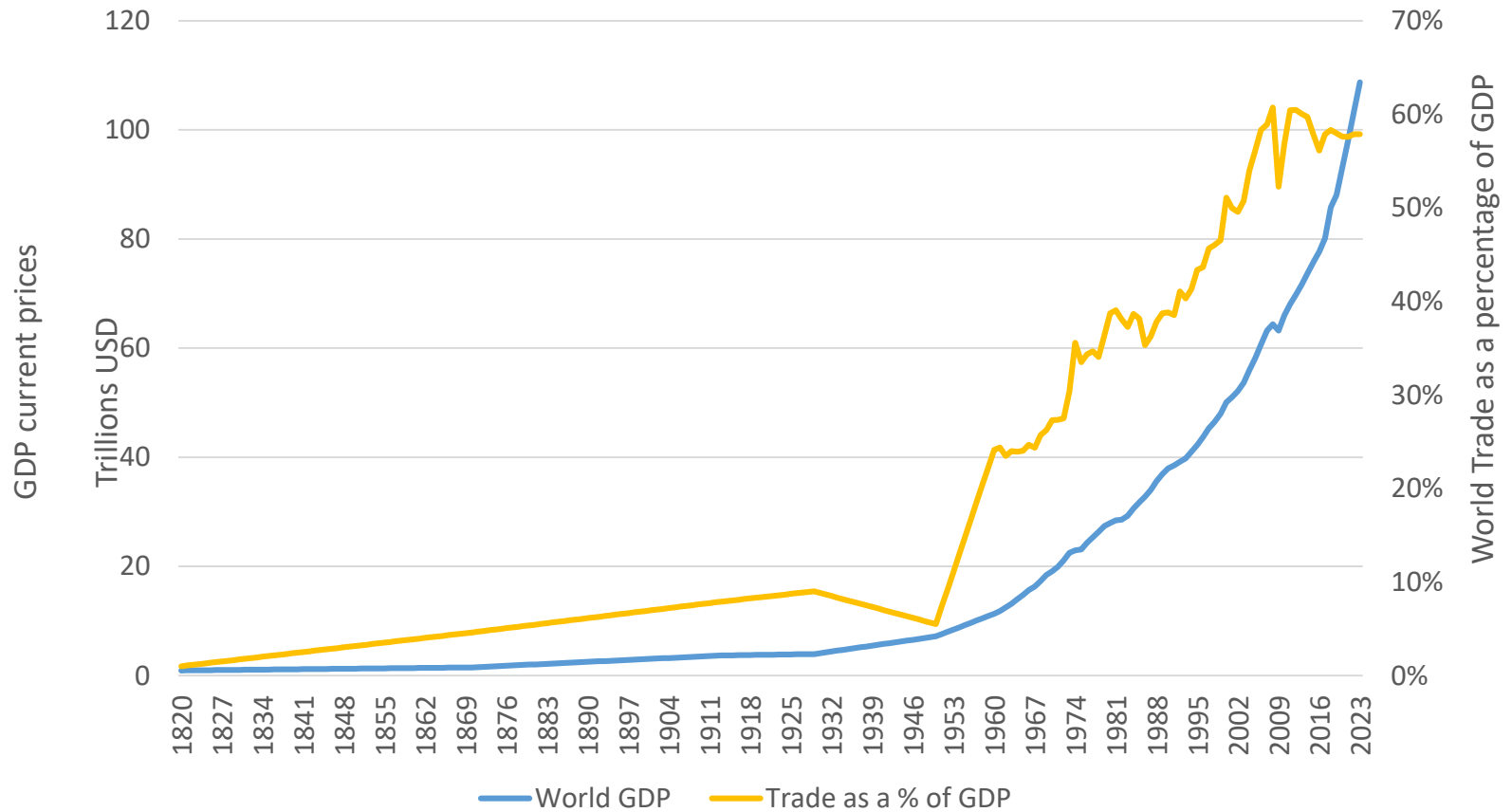
- Commodity classifications
 - Engage government to streamline processes with a clear value chain view in mind
- Inland freight flows
 - Big data solutions? RFA communications system between truckers
- Inland border posts
 - Activate SADC protocols
- Port system
 - Allow Imex non-essentials to move to final destination
- Equipment
 - Combined equipment repositioning system

The future is uncertain

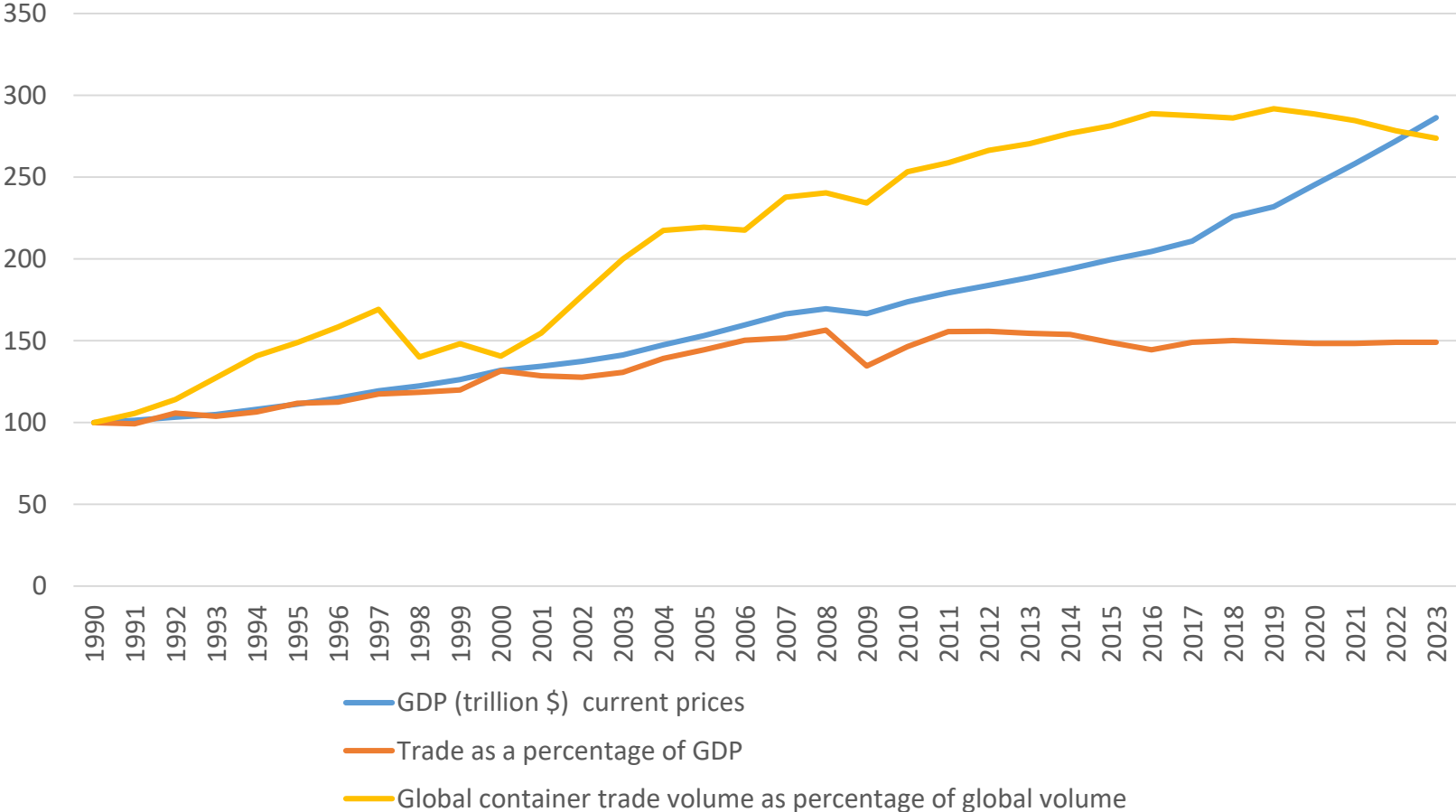


- Plan for various scenarios in terms of time
- The government will most certainly start a phased approach of “opening the economy”
- The phased approach will not consider the smooth flow of value chains
- Labour could use uncertainty to create unrest
- Logistics equipment might get even more misplaced

But will global trade recover?

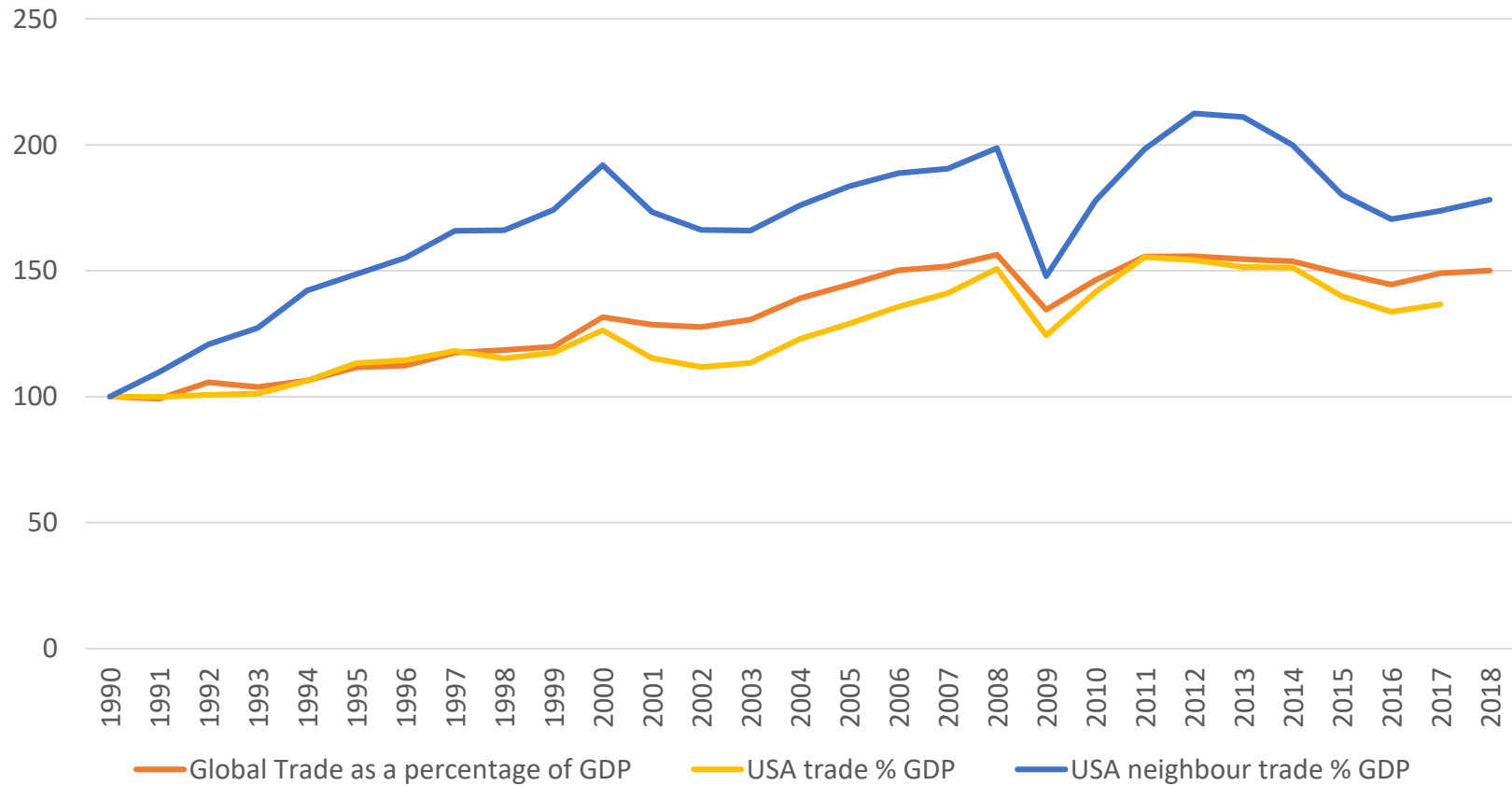


The short term view confirms reversal

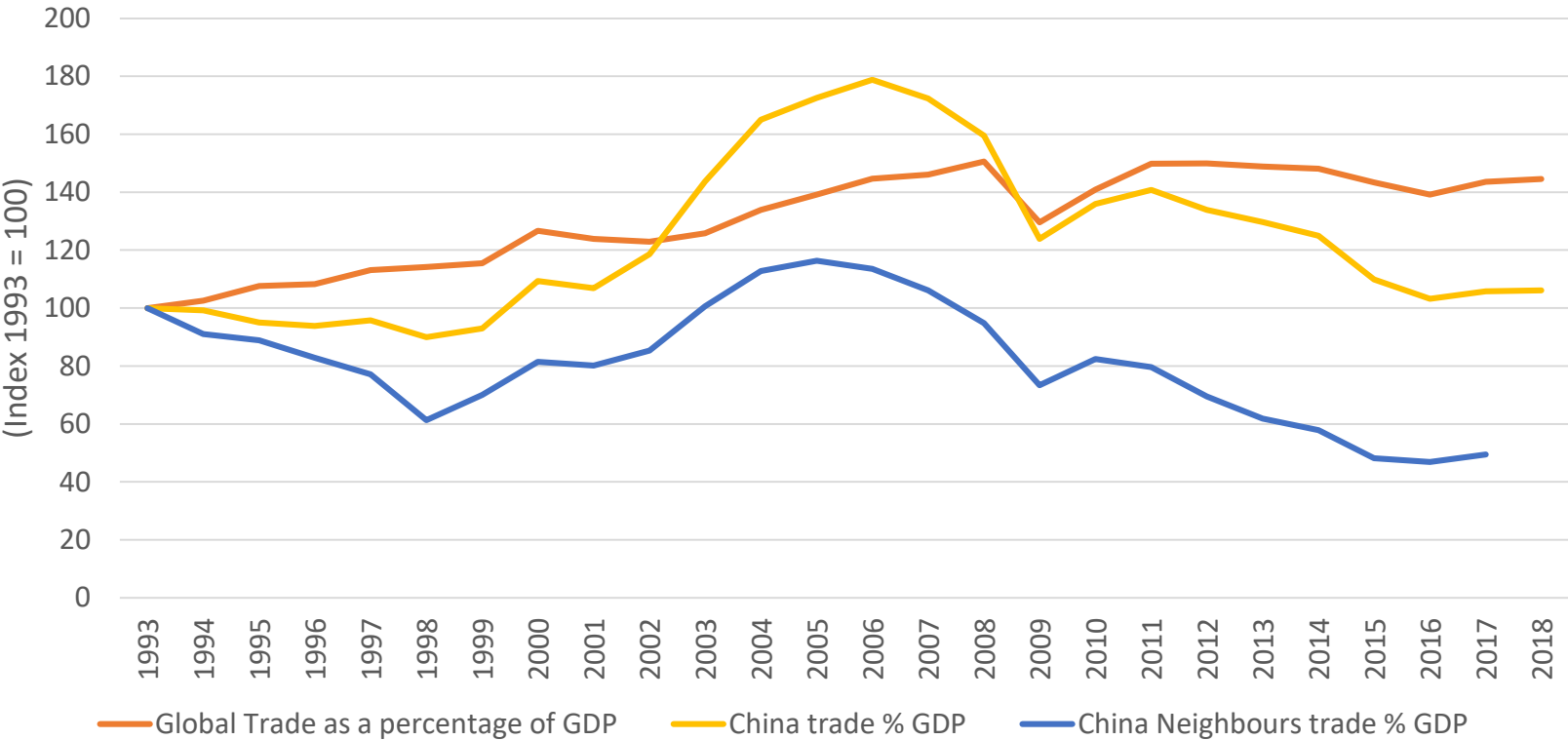


Source: Our World in Data, 2018

In the USA "Reshoring" is not a Trump construct – example of "nearshoring"



China, however, becomes inward looking



Source: Our World in Data, 2018

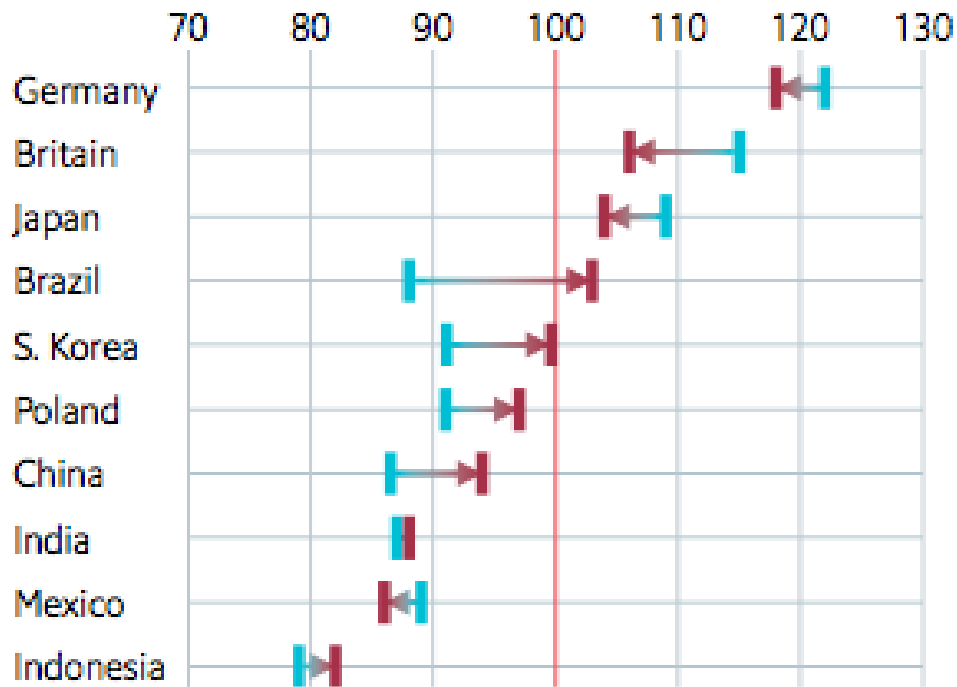
Driven by the new convergence of production factor normalisation



The new convergence

Manufacturing-cost index*, United States=100

■ 2004 ■ 2018



Source: Boston Consulting Group

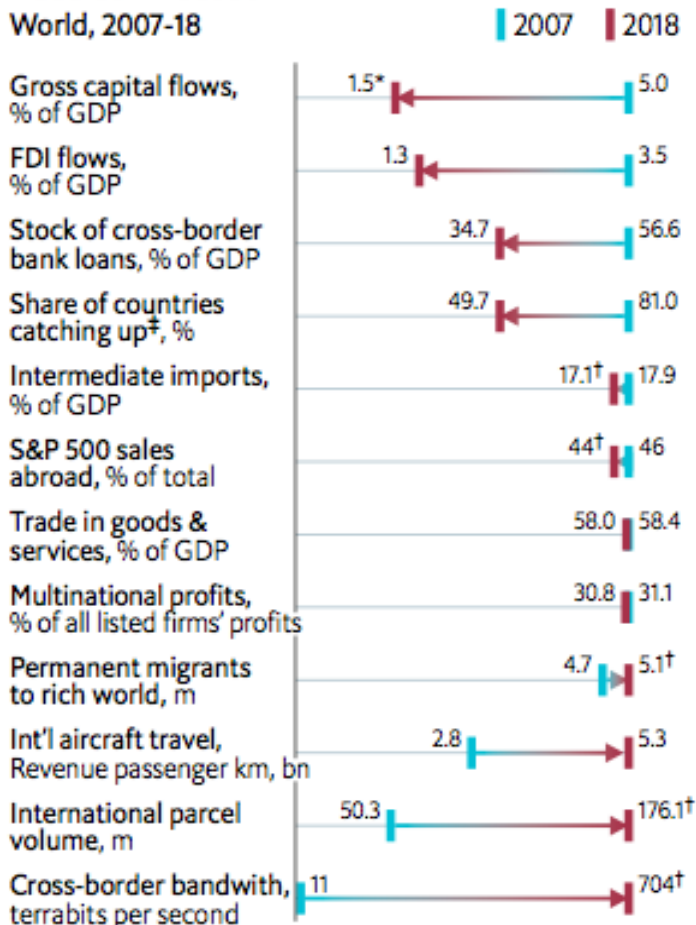
*Incorporates wages, productivity, energy costs and exchange rates

In a world that is becoming less connected – not more



Less connected

World, 2007-18



*2016 †2017 ‡Compared with US GDP per person, growth rate at PPP
Sources: IMF; UNCTAD; BIS; OECD; Bloomberg; IATA; UPU; McKinsey

- We associated “connectedness” with communication and trade in “small” things
- But where it really matters, we might be drifting apart